TESTIMONY

OF

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NATIONAL RURAL LETTER CARRIERS' ASSOCIATION

BEFORE THE

COMMITTEE ON POST OFFICE AND CIVIL SERVICE

U. S. HOUSE OF REPRESENTATIVES

ON

THE DEVELOPMENT OF A NEW RETIREMENT SYSTEM

FOR POSTAL/FEDERAL EMPLOYEES COVERED BY SOCIAL SECURITY

APRIL 23, 1985

Mr. Chairman and Members of the Committee:

My name is Tom W. Griffith and I am the President of the 66,000-member National Rural Letter Carriers' Association. We are honored to appear before the Committee on Post Office and Civil Service, and to offer continuing testimony as you develop a new retirement system for Federal employees hired after January 1, 1984.

Members of the National Rural Letter Carriers' Association serve fifteen million American families by daily traveling 2,387,951 miles over 38,925 rural routes throughout the country. We wish to compliment the Committee at its thoughtful approach to developing a sound legislative proposal on an issue of vital importance to present and future Federal and Postal employees. Retirement is one of the critical factors in a total compensation package for employees. For the sake of our discussion today, we will presume and recommend this Committee adopt a three-tiered approach to the supplemental retirement system.

The first tier would be Social Security. The second tier would be a defined benefit plan, and the third tier would be a before-tax individual savings account with a match by the government.

You have asked us to address six specific areas and we will begin with the area of COST. We feel the cost of the new system should be close to the cost of the existing Civil Service Retirement system. This is because the Federal Government is an employment leader. And, we feel they should continue to set an example for other employers. The Hay Study, commissioned by this Committee, shows that in the area of salary alone, Federal workers lag behind the private sector. If we look at the total compensation package, then some balance is restored, by the current fair and adequate retirement plan.

I think it is important to remember that the Federal Government, as an employer, is unique. Many of the recent studies which Hay - - - and others have presented, have averaged all employers together. We would question the inclusion of many small firms in these studies. Would it not be more accurate to simply look at the Fortune 200 or the largest private employers in the land? I think this would substantially change your cost comparisons.

Retirement is one part of a total compensation package. It's goals are, as part of a compensation package, to attract and retain qualified, dedicated individuals to be, in our case, rural letter carriers. Therefore, a system which costs approximately the same as the existing system is justified if it will continue to attract and retain that type of people.

We do not want two classes of employees. We cannot accept substantially different benefits for the same work in any given work place. Postal salaries are negotiated, and the amount of a salary increase during negotiations is highly influenced by the Postal Budget, the Federal Budget and the Economy. A good retirement system should assure a constant, positive value and create some stability in the workers' mind. A system which achieves that will not be cheap.

The Social Security Tilt - we favor an add-on approach. The tilt favoring lower salaried employees can be offset by a voluntary supplemental capital accumulation plan. A voluntary plan that is a before-tax contribution defers tax on the contribution, and is linked to individual initiative. A complete offset concentrates benefits on the higher paid workers in a system to the detriment of the lower paid workers. By a simple add-on plan, the Federal Government would be in compliance with Employment Retirement Income Security Act (ERISA), even though the Federal Government may not be bound by the law. The Federal Government should be a moral force in the work place and set a prime example. Therefore, when it conforms to the Internal Revenue Code, it sets a strong example for other employers.

Finally, higher paid employee categories have much greater current disposable income and, therefore, the discretion to compensate for the Social Security tilt by individual initiative.

Employee Contribution - Employee contribution level should roughly equal current contributions. Current employees pay 7% of their salary, plus 1.35% Medicare. The new employees will pay, by 1990, 6.2% Social Security, plus 1.35% Medicare.

Presuming this will be a three-tiered plan, the middle tier being a defined benefit program, we recommend that employees should contribute to the defined benefit program. There is historical precedence for public employees' participation in contributory staff retirement systems. We realize that private sector retirement systems are largely non-contributory. However, those corporations have an entirely different mission than government. They are organized for, and have a responsibility to their share-holders, to make money. That is not the government's function. They also receive a tax deduction for their contributions to a retirement plan. The government obviously cannot. We think employee contributions give a certain amount of budgetary flexibility to the rest of the Federal Budget and may prevent the temptation to alter the plan after you adopt it, by future Congresses. Simply stated, a plan in which the employee has a direct stake in funding will discourage legislative tampering.

Social Security and Medicare may be altered by future Congresses. Therefore, this Committee should design some type of automatic trigger to keep the contribution rates in the current

Civil Service Retirement system and the new supplemental retirement system substantially the same.

Finally, we would propose that employees covered by the new plan have an optional program in which they may choose to participate. This program would be a portion of the defined benefit plan, and essentially, it would allow the employee the continued ability to retire at 55 years of age with 30 years of service without any penalties. However, to do that, the employee would have to opt, early in their service career, to pay an additional contribution with a government match to the defined benefit plan to have the ability for early retirement. In effect, the employee would have the option to purchase the right for retirement at age 55 with 30 years of service.

Funding - We believe in the adequacy of the current system. We would hope that the Funding mechanism of a future system would protect it from political manipulations. We would endorse the system as proposed by Senator Stevens, in the Bill he introduced earlier in the year, in which all funds from the defined benefit plan would flow into the existing Civil Service Retirement system. Since government is here to stay, there is no need for ERISA guaranteed protections; i.e., there is no need for absolute, 100% funding of the system in any given year.

While we are on funding, we feel compelled to talk about the United States Postal Service Retirement funding. The Postal Reorganization Act of 1970 states very clearly that the Postal Service is a branch of the Executive Department of the Federal Government. In 1970, the U. S. Postal Service was created to grant to them a certain degree of financial flexibility. However, the U. S. Postal Service wasn't designed to be a private enterprise in business to make money for the stockholders. We feel strongly that the funding of the retirement plan for Postal employees be treated the same as all other agencies of the Federal Government.

Earlier, we advocated the creation of some type of a savings plan. For that savings plan, we think employees should be allowed a choice of investments and the government's matching contribution should be funded immediately. However, there should be created by this or accompanying legislation, a Federal Insurance Savings Corporation (FISC) to act as the FDIC does for employees' investment savings in their individual savings accounts. Firms offering investment potential to the employees should be scrutinized by the new FISC, so the investment of these people's retirement monies could be, after it is funded, guaranteed and secure.

When should an employee become vested in the new system? The new system will be a three-part program. Social Security,

a defined benefit plan and some type of individual savings. The first part is Social Security and that is totally portable. So, vesting is not really the issue. Social Security is a society-wide program. The third part of the package is a savings or thrift program. We assume that this part will have a relatively short vesting time of under five years, maybe as short as one year, because that plan is strictly related to individual behavior and individual initiative.

The third part is a more traditional retirement plan. Under such plans, the longer an employee is required to work to be eligible, the lower cost to the employer. It obviously promotes employment longevity by dedicated, qualified personnel and creates a bond between the employer and the employee, which we think is a necessary goal. ERISA requires 10 years, the current law requires 5 years. We think something in between there is very acceptable and desirable.

Again, Mr. Chairman and Members of the Committee, we are appreciative that you are willing to hold these hearings on this complicated issue, and appreciate your interest in and concern about an adequate retirement program for new employees.